

Buying a franchise is risky business

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Q. Is it better to buy an operating franchise or to open a new one?

Because there are so many variables, there is no simple answer. Here is just a sampling of some of the issues to consider.

One advantage to buying an ongoing business is that the purchaser could be up and running immediately after the closing, while the acquisition of a new franchise may require time to find a location, rebuild to meet the franchisor's standards, and acquire necessary materials and equipment. However, the continuation of an existing franchise may be delayed if the purchaser is first required to upgrade to meet the franchisor's current standards.

Another plus is that an existing business will have an actual operating history, while a new franchise may have no track record. Of course, a change in ownership can affect earnings and there is no guarantee that current employees or customers will remain loyal. Furthermore, if the purchaser is required to sign the franchisor's most recent franchise agreement, that new accord may include different and more costly terms than those under which the seller operated. Also adding to the cost is the franchisor's license fee or transfer charge or, if the term of the seller's franchise is about to expire, a renewal fee.

Typical disadvantages may include a higher purchase price for an existing franchise and the inability to negotiate one's own franchise agreement and lease. If the seller's franchise agreement gives its franchisor a right of first refusal to purchase the business, that could mean that the franchisor might step in and buy the business on the terms the purchaser just spent time and money researching and negotiating.

Purchasing a business or acquiring a franchise involves many issues and a substantial investment. While performing due diligence, a prospective purchaser is wise to involve both his attorney and accountant.

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